

## **EXHIBIT 1**

### **INTRODUCTION**

Respondent California Republican Party (hereafter “CRP”) is a state general purpose campaign committee, which actively supports Republican candidates for state office. This case arose from a Franchise Tax Board (hereafter “FTB”) audit of the CRP committee for the reporting period from January 1, 1995 through December 31, 1996. At all relevant times, Respondent Shawn Steel was the committee’s treasurer.

During the audit period, the committee received contributions totaling \$16,387,052, and made expenditures totaling \$16,118,353. Based on the FTB audit findings and the Commission’s own investigation, Respondents failed to disclose subvendor information for payments totaling \$4,158,383, and failed to report accrued expenditures totaling \$822,392. In addition, Respondents failed to file a late contribution report for a \$50,000 monetary contribution and three nonmonetary contributions totaling \$3,216 during 1996. The Commission received the FTB audit report detailing their findings in February 2000.

For the purposes of this stipulation, the violations of the Political Reform Act (the “Act”)<sup>1</sup> are stated as follows:

- COUNT 1: Respondents failed to report subvendor information for \$148,900 in payments made to The Monaco Group on the campaign statement for the reporting period from March 9, 1996 through June 30, 1996, in violation of Government Code section 84303.
- COUNT 2: Respondents failed to report subvendor information for \$2,692,610 in payments made to Multi Media Services on the campaign statement for the reporting period from March 9, 1996 through June 30, 1996, in violation of Government Code section 84303.
- COUNT 3: Respondents failed to report subvendor information for \$89,376 in payments made to National Media on the campaign statement for the reporting period from March 9, 1996 through June 30, 1996, in violation of Government Code section 84303.
- COUNT 4: Respondents failed to report subvendor information for \$15,903 in payments made to Target Enterprises on the campaign statement for the reporting period from March 9, 1996 through June 30, 1996, in violation of Government Code section 84303.

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<sup>1</sup> The Political Reform Act is contained in Government Code sections 81000 through 91014. All references to “Section(s)” are to the aforementioned Government Code unless otherwise indicated. Commission regulations appear at Title 2, California Code of Regulations, section 18109, *et seq.* All references to “Regulation(s)” are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

- COUNT 5: Respondents failed to report subvendor information for \$62,408 in payments made to Western Pacific Research on the campaign statement for the reporting period from July 1, 1996 through September 30, 1996, in violation of Government Code section 84303.
- COUNT 6: Respondents failed to report subvendor information for \$36,723 in payments made to National Media on the campaign statement for the reporting period from July 1, 1996 through September 30, 1996, in violation of Government Code section 84303.
- COUNT 7: Respondents failed to report subvendor information for \$125,492 in payments made to David Gilliard & Associates on the campaign statement for the reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code section 84303.
- COUNT 8: Respondents failed to report subvendor information for \$59,052 in payments made to McNally Temple & Associates on the campaign statement for the reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code section 84303.
- COUNT 9: Respondents failed to report subvendor information for \$10,925 in payments made to Aaron, Thomas & Hogue on the campaign statement for the reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code section 84303.
- COUNT 10: Respondents failed to report subvendor information for \$416,774 in payments made to National Media on the campaign statement for the reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code section 84303.
- COUNT 11: Respondents failed to report subvendor information for \$4,950 in payments made to The Monaco Group on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code section 84303.
- COUNT 12: Respondents failed to report subvendor information for \$340,594 in payments made to Russo, Marsh & Raper on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code section 84303.
- COUNT 13: Respondents failed to report subvendor information for \$115,256 in payments made to National Media on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code section 84303.

- COUNT 14: Respondents failed to report subvendor information for \$39,420 in payments made to Tim Macy & Associates on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code section 84303.
- COUNT 15: Respondents failed to file a late contribution report on October 29, 1996 for three late contributions which totaled \$3,216, in violation of Government Code section 84203.
- COUNT 16: Respondents failed to file a late contribution report on November 2, 1996 for a \$50,000 late contribution, in violation of Government Code section 84203.
- COUNT 17: Respondents failed to disclose \$346,632 in accrued expenditures on the campaign statement for the period from March 9, 1996 through June 30, 1996, in violation of Government Code section 84211, subdivision (j)(6)<sup>2</sup>.
- COUNT 18: Respondents failed to disclose \$248,591 in accrued expenditures on the campaign statement for the period from July 1, 1996 through September 30, 1996, in violation of Government Code section 84211, subdivision (j)(6).
- COUNT 19: Respondents failed to disclose \$125,356 in accrued expenditures on the campaign statement for the period from October 1, 1996 through October 19, 1996, in violation of Government Code section 84211, subdivision (j)(6).
- COUNT 20: Respondents failed to disclose \$101,813 in accrued expenditures on the campaign statement for the period from October 20, 1996 through December 31, 1996, in violation of Government Code section 84211, subdivision (j)(6).
- RESPONDENTS: California Republican Party, and Shawn Steel, treasurer

### **SUMMARY OF THE LAW**

Section 81002 provides that campaigns shall fully and truthfully disclose information regarding receipts and expenditures in election campaigns in order to fully inform the public and inhibit improper practices. The Act established a campaign reporting system to accomplish this purpose.

Section 82013, subdivision (a) defines a “committee” as any person or combination of persons who directly or indirectly receives contributions totaling \$1,000 or more in a calendar year.

Pursuant to Section 84200, subdivision (a), a committee, which has qualified as a committee under Section 82013, subdivision (a), shall file semiannual campaign statements each year no later than July 31 for the six month period ending June 30, and no later than January 31 for the six month period ending December 31. Section 84211 prescribes that certain information must be disclosed on

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<sup>2</sup> Following amendment of the statute in 2000, Section 84211, subdivision (j)(6) is currently identified as Section 84211, subdivision (k)(6). Reference is made to the prior subdivision throughout this Exhibit.

campaign statements, which are required to be filed, including contributions received, and expenditures made by the committee.

Section 84211, subdivision (j)(6) requires the disclosure of specific information for all expenditures of \$100 or more made during the period covered by the campaign statement, including the name and street address of the person to whom the expenditure was made, the amount of the expenditure, and a brief description of the consideration that was received for the expenditure.

Section 84303 provides that no expenditure shall be made, other than overhead and normal operating expenses, by an agent or independent contractor, including but not limited to an advertising agency, on behalf of, or for the benefit of any candidate or committee, unless it is reported by the candidate or committee as if the expenditure were made directly by the candidate or committee. The information reported by the candidate or committee is commonly referred to as “subvendor information.”

Pursuant to Section 82036, a late contribution is one which totals in the aggregate \$1,000 or more, and which is made to, or received by a candidate, controlled committee, or committee formed or existing primarily to support or oppose a candidate or measure, before the date of the election, but after the closing date of the last campaign statement required to be filed prior to the election.

Section 84203, subdivision (a) provides that if a late contribution is made or received, a late contribution report must be filed disclosing the name and address of the contributor, the name and address of the recipient, and the candidate or ballot measure which is supported. Pursuant to subdivision (b), the contributor must file the late contribution report within 24 hours of the time the late contribution is made.

Section 82025, in defining an “expenditure,” expressly states that an expenditure is made “on the date the payment is made or on the date consideration, if any, is received, whichever is earlier.” If consideration is received prior to the payment being made, then the expenditure must be reported on the campaign statement as an accrued expense on Schedule F, which is entitled “Accrued Expenses (Unpaid Bills).”

Regulation 18421.6, subdivision (b) provides guidance in reporting accrued expenses, and states that if the exact amount of the debt or obligation is not known, the report shall state that the amount reported is an estimate. Once the exact amount is determined, the committee must amend the report to disclose the correct amount of the expenditure.

Under Section 84100 and Regulation 18427, subdivision (a), it is the duty of a committee’s treasurer to ensure that all requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds, are complied with. A committee’s treasurer may be held jointly and severally liable, along with the committee, for any reporting violations committed by the committee. (Section 83116.5 and 91006.)

## SUMMARY OF THE FACTS

### COUNTS 1 – 14

Respondents failed to report subvendor information for the numerous vendors listed on campaign statements filed during calendar year 1996. Accounting Specialist Bob Perna determined the required subvendor information from the FTB audit working files, CRP's representative, and/or directly from some of the vendors.

The campaign statements filed during 1996 should have reflected the following subvendor information:

<i>Count</i>	<i>Reporting Period</i>	<i>Vendor</i>	<i>Subvendors</i>	<i>Amount</i>
1	03/09/96 – 06/30/96	The Monaco Group	U.S.P.S.; Admark	\$ 148,900
2	" "	Multi Media Services	Television stations <sup>3</sup>	2,692,610
3	" "	National Media	Television stations	89,376
4	" "	Target Enterprises	TCI Communications	15,903
5	07/01/96 – 09/30/96	Western Pac. Research	Television/cable stations	62,408
6	" "	National Media	Television stations	36,723
7	10/01/96 – 10/19/96	Dave Gilliard & Assoc.	TCI Commun.; 8 others <sup>4</sup>	125,492
8	" "	McNally Temple Assoc.	Political Data; 5 others <sup>5</sup>	59,052
9	" "	Aaron Thomas & Hogue	U.S.P.S.	10,925
10	" "	National Media	Television stations	416,774
11	10/20/96 – 12/31/96	The Monaco Group	U.S.P.S.	4,950
12	" "	Russo Marsh & Raper	U.S.P.S.; Valley Press	340,594
13	" "	National Media	Television stations	115,256
14	" "	Tim Macy & Assoc.	U.S.P.S.	39,420
TOTAL				\$4,158,383

By failing to timely report subvendor information for the foregoing payments totaling \$4,158,383, Respondents violated Section 84303.

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<sup>3</sup> Some of the many television stations and cable companies for which vendors Multi Media Services, National Media and Western Pacific Research made media buys included KABC-TV, KCBS-TV, KCAL-TV, KNBC-TV, KTLA-TV, KTTV-TV, KCRA-TV, KXTV-TV, Multi-Vision Cable and Cable One.

<sup>4</sup> The eight other subvendors were Charter Communications, Time Warner, The Aaron Group, Continental Cablevision, The Monaco Group, Light Graphics, Political Data, and Stampede Productions.

<sup>5</sup> The five other subvendors were the Electric Page, Aaron Thomas & Hogue Inc., Dome Printing, Metro Mailing Services, and F. Smith.

### COUNTS 15-16

Respondents' campaign statement for the period from October 20, 1996 through December 31, 1996 revealed that two late contribution reports should have been filed prior to the November 5, 1996 general election. The late contributions that should have been reported are as follows:

<i>Count</i>	<i>Date Made</i>	<i>Candidate/Committee Recipient</i>	<i>Amount</i>	<i>Total</i>
15	10/23/96	Barbara Alby	\$ 165	
	10/28/96	" "	916	\$ 1,081
	10/23/96	Jim Davis	101	
	10/28/96	" "	986	1,087
	10/23/96	Richard Lambros	75	
	10/28/96	" "	973	1,048
16	11/01/96	Assembly Republican Victory Fund	\$50,000	50,000
Total				\$ 53,216

Based on the foregoing, Respondents should have filed a late contribution report on October 29, 1996, reporting a total of \$3,216 in late contributions made to three Legislative candidates, Barbara Alby, Jim Davis and Richard Lambros. Respondents should have filed another late contribution report on November 2, 1996, reporting the \$50,000 late contribution made to the Assembly Republican Victory Fund. The CRP filed late contribution reports for 78 other late contributions made during the audit period, which totaled \$1,618,667.

Respondents' failure to file the above two late contribution reports constitutes two violations of Section 84203, subdivision (a).

### COUNTS 17 - 20

For reporting periods in 1996, Respondents incurred expenses totaling \$822,392 to the California Republican Party Federal PAC, that were not properly disclosed as accrued expenses on their campaign statements. The accrued expenses that were not properly reported are as follows:

<i>Count</i>	<i>Reporting Period</i>	<i>Amount of Accrued Expenses</i>
17	03/09/96 – 06/30/96	346,632
18	07/01/96 – 09/30/96	248,591
19	10/01/96 – 10/19/96	125,356
20	10/20/96 – 12/31/96	101,813
Total		\$822,392

Respondents reported the above expenditures in the period in which they were paid, rather than in the period the expenditures were accrued, or when consideration for the expenditures was received. The failure to properly report accrued expenditures during four campaign reporting periods constitutes four violations of Section 84211, subdivision (j)(6).

## **CONCLUSION**

Respondents were negligent in failing to properly disclose their campaign activity during the audit period. The total amount of subvendor nondisclosure was significant. The information regarding the various subvendors was available to Respondents, or could have been obtained prior to filing the campaign statements. Respondent CRP is an experienced, long-standing state general purpose committee. The CRP has a prior enforcement history, and was previously penalized by the Commission for campaign reporting violations that occurred in 1983, 1994 and 1996.

In mitigation, this was an extremely large campaign, in that the total contributions and expenditures for the audit period exceeded sixteen million dollars. In addition, Respondents timely filed late contribution reports for a substantial amount of the late contributions made during the audit period. Respondents made requests for information from National Media and Multimedia Services about the subvendor payments, so that Respondents could disclose the information on campaign statements. When Respondents did not receive the information in response to these requests, they made no further efforts to obtain the information. The accrued expenditures that Respondents failed to report were CRP's non-federal reimbursement of its federal account for general operating expenses, which are reported on the CRP's federal committee's campaign reports.

This matter consists of twenty counts which carry a maximum possible administrative penalty of Forty Thousand Dollars (\$40,000.00). While this case is aggravated by the fact that the Commission previously penalized the CRP for campaign reporting violations, it appears that Respondents have attempted to comply with the Act, and have instituted procedures to maintain compliance in the future. Accordingly, the facts of this case, including the mitigating and aggravating factors discussed above, justify imposition of the agreed upon penalty of Thirty-One Thousand dollars (\$31,000.00).